



PUBLIC WATER SUPPLY DISTRICT NUMBER 2

LACLEDE COUNTY, MISSOURI

YEAR ENDED DECEMBER 31, 1998

**From The Office Of State Auditor
Claire McCaskill**

Report No. 99-43
July 15, 1999

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

Some problems were discovered as a result of an audit conducted by our office in response to petitioners of Public Water Supply District Number 2, Laclede County, Missouri.

The district has not obtained annual audits as required by state law.

Improvements are needed in the district's budgeting. The financial statement prepared for the year ended December 31, 1998, did not agree to the district's accounting records. Accurate and complete budgets and financial statements are necessary to keep the district informed of the financial activity and condition of the district.

Accounting and bookkeeping duties are handled by the same person, in this case the water district clerk. An independent review of records by someone other than the clerk would provide a needed check on the district's finances.

The board president's wife was appointed clerk of the water district in February 1997. The board meeting minutes did not document whether or not the president participated in the appointment process.

The appointment or hiring of a relative by a public official is prohibited by the Missouri Constitution. Because of the serious consequences which can result by hiring a relative, namely the possible forfeiture of elected office, the circumstances surrounding the hiring of a district official's relative should be fully documented.

The minutes of the open public meetings do not adequately or clearly document all items discussed or decisions made by the board. Also, the minutes do not always document which board members are present at meetings. The minutes are the only official record of board actions. Inadequate minutes can lead to public confusion when actions of the board are reviewed.

Miscellaneous receipts, such as meter connection fees and sales tax collections, are not properly recorded. The balance of the meter deposit account is not reconciled to actual meter deposits. Payment methods are not always recorded and the board does not periodically review delinquent water accounts.

Gallons of water billed to customers are not reconciled to gallons of water pumped. This reconciliation is necessary to detect significant water loss and to ensure all water usage is properly billed.

The district does not have a written travel expense policy, and employee reimbursements are not always supported by adequate documentation of actual expenses.

YELLOW SHEET

PUBLIC WATER SUPPLY DISTRICT NUMBER 2
LACLEDE COUNTY, MISSOURI

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CLAIRE C. McCASKILL
Missouri State Auditor

To the Board of Directors
Public Water Supply District Number 2
Laclede County
Stoutland, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit Public Water Supply District Number 2, Laclede County, Missouri. Our audit of the district included, but was not limited to, the year ended December 31, 1998. The objectives of this audit were to:

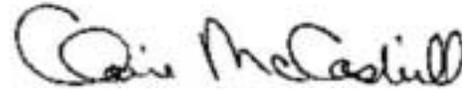
1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed board minutes and various district financial records.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in the audit of the district.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the district and was not subjected to auditing procedures applied in the audit of the district.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of Public Water Supply District Number 2, Laclede County, Missouri.

A handwritten signature in black ink that reads "Claire McCaskill". The signature is written in a cursive style with a large initial "C".

Claire McCaskill
State Auditor

April 29, 1999 (fieldwork completion date)

HISTORY AND ORGANIZATION

PUBLIC WATER SUPPLY DISTRICT NUMBER 2
LACLEDE COUNTY, MISSOURI
HISTORY AND ORGANIZATION

Public Water Supply District Number 2, Laclede County, Missouri, was established in 1966 and currently serves approximately 160 customers. The Board of Directors consists of five members who serve three-year terms. The Board of Directors elects a President and Vice President from the board membership.

<u>Board Members</u>	<u>Term Expires</u>	<u>Surety Bond</u>	<u>Actual Compensation for the Year Ended December 31, 1998</u>
Gene T. Allee, Board President	April 2001	\$	0
Vacant, Vice President*	April 2002		0
Estill Clay, Board Treasurer	April 2002		0
Bob Boatwright, Board Member	April 2001		0
T.C. DeGraffenreid, Board Member	April 2000		0

* Joe Hawkins resigned on December 17, 1998, and was replaced by Irven Kresse on January 18, 1999.

<u>Other Officials</u>			
Sondra Allee, Water Clerk/Board Secretary		\$ 45,000	7,100
Donald Stradt, Water District Manager**			3,325

**Prior to July 1998, Jerry Neal served as Water District Manager and was paid \$4,588 in 1998.

The board members and other officials at December 31, 1998 were:
A summary of the financial activity of Public Water Supply District Number 2, Laclede County, Missouri, for the year ended December 31, 1998, is presented on the next page:

	General Fund	Meter Deposit Fund	New Water Project Fund	New Water Project Meter Deposit Fund
RECEIPTS				
Sales	\$ 39,518	0	0	0
Interest	578	0	0	0
Penalties	389	0	0	0
New installations	1,750	0	0	0
Taxes	66	0	0	0
Meter deposits	0	1,325	0	200
Other	1,847	0	5,926	0
Transfers in	0	0	0	1,025
Total Receipts	<u>44,148</u>	<u>1,325</u>	<u>5,926</u>	<u>1,225</u>
DISBURSEMENTS				
Salaries	15,012	0	0	0
Insurance	1,481	0	0	0
Utilities	3,936	0	0	0
Repairs and maintenance	13,685	0	0	0
Supplies and equipment	8,944	0	0	0
Legal and election	4,320	0	0	0
Bond principal and interest	7,578	0	0	0
Interest	220	0	0	0
Refunds and other	0	440	5	30
Transfers out	0	0	1,025	0
Total Disbursements	<u>55,176</u>	<u>440</u>	<u>1,030</u>	<u>30</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	-11,028	885	4,896	1,195
CASH BALANCE, JANUARY 1,	<u>28,399</u>	<u>2,976</u>	<u>0</u>	<u>0</u>
CASH BALANCE, DECEMBER 31,	<u>\$ 17,371</u>	<u>3,861</u>	<u>4,896</u>	<u>1,195</u>

MANAGEMENT ADVISORY REPORT

PUBLIC WATER SUPPLY DISTRICT NUMBER 2
LACLEDE COUNTY, MISSOURI
SUMMARY OF FINDINGS

1. Accounting Controls and Procedures (pages 8-10)

Accounting and bookkeeping duties are not adequately segregated and bank reconciliation procedures are not adequate. Miscellaneous receipts, such as meter connection fees and sales tax collections, are not adequately recorded. The balance of the meter deposit account is not reconciled to actual meter deposits. The method of payment is not always recorded. The board does not periodically review delinquent water accounts. Gallons of water billed to customers are not reconciled to gallons of water pumped. The board president and treasurer do not review related invoices or supporting documentation prior to signing checks. The board does not have a written bank depository agreement and a significant portion of the district's funds are maintained in non-interest bearing accounts.

2. Budgets, Financial Reporting, and Audits (pages 11-12)

Improvements are needed in the district's budgeting and financial statement documents and procedures. The district does not obtain annual audits as required by state law.

3. Minutes and Records (pages 12-13)

The board president's wife was appointed district clerk in February 1997, and the board minutes do not clearly document whether the president participated in the appointment process. Board minutes do not always document items discussed or decisions made by the board. Board minutes are not always signed or officially approved by the board. The district has not established a policy regarding public access to district records.

4. Expenditures and Payroll Matters (pages 13-15)

The district does not have written travel expense policies, and employee reimbursements are not always supported by adequate documentation of actual expenses incurred. Additional compensation of approximately \$550 was paid to certain employees which was not reported on Forms W-2, and Forms 1099-Miscellaneous were not filed as required for payments totaling \$12,390. Federal and state income taxes are not withheld from wages or salaries paid by the district.

PUBLIC WATER SUPPLY DISTRICT NUMBER 2
LACLEDE COUNTY, MISSOURI
MANAGEMENT ADVISORY REPORT

1. Accounting Controls and Procedures

- A. The water clerk collects payments, prepares deposits, records receipts, and prepares delinquent account notices. No independent review of these procedures is performed.

To safeguard against possible loss or misuse of funds, internal controls should provide for reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. An adequate system of internal controls requires segregation of duties. Since the district has only one administrative employee, segregation of duties may not be feasible. However, the Board of Directors should, at a minimum, designate someone independent of the process to perform and document periodic reviews of the records and procedures.

- B. Formal bank reconciliations are not prepared by the district. At the end of the year, the district hires an accountant to prepare bank reconciliations for all twelve months of the year. For the year ended December 31, 1998, the accountant made adjustments totaling \$528 to the district's accounting records for the General Fund as a result of errors that had not previously been identified. Also, in October 1998, a \$300 deposit into the New Water Project Fund account was not recorded on the corresponding accounting records.

Section 247.100, RSMo 1994, indicates the board treasurer shall be the custodian of the district's funds. Therefore, the treasurer should receive the monthly bank statements and prepare or review the bank reconciliations.

Monthly bank reconciliations should be prepared by the board treasurer to ensure that all accounting records are in balance, transactions have been properly recorded, and any errors or discrepancies are detected in a timely manner. Complete documentation of the reconciliations should be retained to support conclusions and any corrections made and to facilitate independent reviews.

- C. The district does not keep adequate records of hookup and meter connection fees, sales taxes, interest, and miscellaneous revenues collected. The district does not issue receipt slips or record individual receipts on a receipt ledger. In addition, there are no reconciliations between amounts received and amounts deposited. The district deposited \$1,500 in meter connection fees during the year ending December 31, 1998; however, \$1,750 was recorded as new installation fees on the district's financial statement. Also, the district recorded \$2,600 as sales tax collections and miscellaneous revenues on its financial statement and the clerk indicated this amount was estimated. To properly account for all receipts, prenumbered receipt slips should be issued or receipts should be recorded on a ledger immediately upon receipt and the method of payment should be noted.

D. District residents are required to pay a \$50 meter deposit before receiving water services. The clerk records the meter deposits in the checkbook register and the monies are deposited into a separate checking account. The district held \$3,861 in the Meter Deposit Fund at December 31, 1998. Upon our request, the clerk prepared of listing of meter deposits on hand which identified \$2,430 as customer deposits. The district needs to identify all customer deposits currently held by the district and keep the listing properly updated. The listing of meter deposits should be reconciled monthly to the meter deposits in the account to ensure that sufficient funds are available for the payment of all liabilities.

E. The district receives cash and checks for the payment of water bills. The billing stubs which accompany the payment serve as the district's initial record of the receipt; however, the method of payment (cash, check, money order, etc.) is not always recorded.

To ensure the proper handling and safeguarding of district monies, the method of payment should be indicated on the billing stubs and the composition of receipts should be reconciled to the composition of bank deposits.

F. The board does not periodically review delinquent accounts. Follow-up on delinquent accounts is performed by the district clerk; however, the district has some old delinquent balances dating back to 1996 and 1995. The district should perform monthly reviews of delinquent accounts and ensure appropriate follow-up procedures are performed. In addition, the board should review the old delinquent accounts for collectability and write off those amounts determined to be uncollectible.

G. The district does not reconcile the total gallons of water billed to customers to the gallons of water pumped. The district does document meter readings from its pump, but some readings did not appear valid, such as current readings that were less than the previous month's readings.

To help detect any significant water loss on a timely basis and to help ensure all water usage is properly billed, the district should monthly prepare and maintain records of the total gallons of water pumped and reconcile them to the gallons of water billed. Significant differences should be investigated.

H. The district clerk prepares all checks which are signed by the board president or treasurer. Section 247.100.3, RSMo 1994, requires the board treasurer to disburse monies only upon warrants signed by the clerk and board president. Since the district does not use separate warrants, the checks should be signed by the clerk, president, and treasurer, or the clerk and president should document their approval for all payments.

I. At December 31, 1998, the district had five non-interest checking accounts totaling approximately \$21,000. One checking account incurs monthly service charges. To maximize the interest earnings and to avoid bank service charges, the district should reduce the number of checking accounts and obtain interest bearing accounts.

WE RECOMMEND the Board of Directors:

- A. Adequately segregate the accounting duties of the district clerk or designate someone independent of the process to perform and document periodic reviews of the records and procedures.
- B. Ensure formal bank reconciliations are prepared monthly.
- C. Ensure the clerk issues prenumbered receipt slips or maintains a receipt ledger and reconciles amounts received to amounts deposited.
- D. Maintain a complete listing of meter deposits and periodically reconcile the listing to monies held by the district.
- E. Record the method of payment received on corresponding billing stubs and reconcile the composition of receipts to bank deposits.
- F. Review delinquent accounts on a monthly basis and write off any old uncollectible accounts.
- G. Compare gallons of water pumped to gallons billed on a monthly basis. Any significant differences should be documented and investigated.
- H. Require the signatures of the clerk, president, and treasurer on all checks, or require the clerk and president to document their approval for all payments.
- I. Maintain district funds in interest bearing accounts when possible and reduce the number of checking accounts.

AUDITEE'S RESPONSE

- A. *We will try to find someone to periodically review the records.*
- B. *We will try to implement this recommendation.*
- C. *The clerk has already implemented this recommendation.*
- D., E., &
G. *We agree with these recommendations.*
- F. *We agree and will review delinquent accounts at our monthly meetings.*
- H. *We agree and will have the clerk and president indicate their approval for all payments.*
- I. *We do not believe it is appropriate to earn interest on meter deposits, but we will check into obtaining interest checking for the other accounts. The bank service charges have already been stopped.*

- A. The district's annual budgets were not fully in compliance with Chapter 67 RSMo. For example, the budgets did not include a budget message nor comparative statements of revenues and expenditures for the two preceding years as required. Instead, only one year of comparative data was included. In addition, the board does not prepare reasonable budget estimates nor periodically compare actual revenues and expenditures to budgeted amounts. In 1998, the board did not budget for painting the water tower (\$11,200) or legal and engineering expenses (\$4,000), and under-budgeted salaries (\$2,500) and supplies (\$5,000). The district also pays some expenditures in January and early February before the budget is usually approved in February.

Budgets are a planning tool and should serve as a guide throughout the year to monitor revenues and expenditures. Section 67.010, RSMo 1994, lists items required in the budget, including a budget message and the two prior years' actual revenues and expenditures. Section 67.040, RSMo 1994, prohibits expenditures in excess of budgeted amounts unless budget amendments are approved by the board. Section 67.080, RSMo 1994, provides that no expenditure of public monies shall be made unless it is authorized in the budget.

- B. The financial statement prepared for the year ended December 31, 1998, did not agree to the district's accounting records. The district recorded estimated depreciation expense of \$12,000; however, the district has not established a permanent record of its fixed assets, nor does the district keep track of the accumulated depreciation. Also, the district recorded \$5,540 as a loan payment when the actual payment was \$7,358.

Accurate and complete financial statements are necessary to keep the district informed of the financial activity and condition of the district. In addition, the district should determine the cost or estimated cost of its fixed assets as a basis for computing depreciation expense.

- C. The district does not obtain annual audits as required by Section 247.080, RSMo 1994. This provides requirements for boards of public water supply districts to have annual audits made of the receipts and expenditures of the district.

WE RECOMMEND the Board of Directors:

- A. Prepare complete, timely, and accurate annual budget documents that contain all information required by state law and/or necessary to provide a complete financial plan for the district. In addition, actual expenditures should not exceed budgeted amounts unless appropriate budget amendments are approved, and no expenditures should be made prior to approval of the budgets.
- B. Prepare accurate financial statements and establish records for fixed assets that include cost or estimated cost and accumulated depreciation.

- C. Obtain annual audits as required by state law.

AUDITEE'S RESPONSE

We agree with these recommendations.

3. Minutes and Records

- A. The current district clerk is the wife of the board president and is paid a salary of \$600 per month (increased from \$500 per month effective February 1998) to perform the duties of that office. This individual was appointed to this position at a board meeting in February 1997. Even though the board president indicated he abstained from voting on both the initial appointment and the subsequent salary increase, the board minutes did not clearly document that he abstained from voting.

The appointment or hiring of a relative by a public official is prohibited by the Missouri Constitution. Because of the serious consequences which can result by hiring a relative, the circumstances surrounding the hiring of a district official's relative should be fully documented.

Discussions and decisions concerning situations where potential nepotism or conflicts of interest exist should be completely documented so that the public has assurance that no district official has benefited improperly. In addition, the board should consider establishing a policy which addresses these types of situations and provides a code of conduct for district officials.

- B. The district treasurer is currently a member of the Board of Directors. Section 247.070, RSMo 1994, requires the board to appoint a treasurer who is not a member of the board.
- C. The minutes of the open public meetings do not adequately or clearly document all items discussed or decisions made by the board. Also, the minutes do not always document which board members are present at the meeting.

The minutes are the only official record of the action of the board. Care should be taken to ensure the minutes are complete and document discussions and specific intentions or reasons behind board decisions. Inadequate or unclear minutes can lead to subsequent confusion as to the board's intentions and possible incorrect interpretation of the board's actions by the general public or other outside entities.

- D. The board minutes are usually prepared and signed by the district clerk, but the minutes are not signed by the board president. The board minutes should be signed by the preparer and by the board president to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board's meetings.
- E. Board minutes are not read and officially approved by the board members. Minutes should be read and approved by the board to ensure their correctness.

- F. Although the district's original written operating policies state that records shall be open to inspection by any person owning land or residing within the district, the board should establish a formal policy regarding public access to district records which complies with state law. This policy should establish a person to contact and an address to mail requests for access to records. Section 610.023, RSMo Cumulative Supp. 1998, lists requirements for making district records available to the public.

WE RECOMMEND the Board of Directors:

- A. Ensure all appointments of individuals to district positions are documented in the board minutes and the district should avoid actual or apparent nepotism situations or conflicts of interest. If a relative of a district official is considered for appointment or the board is discussing a salary increase, that official should abstain from voting on the decision and that action should be fully documented in the official minutes. In addition, the board should consider adopting a code of conduct for district officials.
- B. Appoint a treasurer who is not a member of the board, as required by state law.
- C. Ensure board minutes are prepared containing all necessary information to provide a complete record of all significant matters discussed and actions taken by the board.
- D. Ensure board minutes are signed by the clerk and board president to attest to the completeness and accuracy.
- E. Read and approve board meeting minutes.
- F. Establish policies and procedures regarding public access to district records which comply with state law.

AUDITEE'S RESPONSE

- A. *The board members who attended these meetings can verify that the board president abstained from voting on these matters; however, we agree that this was not documented.*
- B. *We will attempt to find someone who will serve as treasurer.*
- C. *We agree and the clerk has already been preparing more detailed minutes.*
- D-F. *We agree and will implement.*

4. Expenditures and Payroll Matters
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- A. The district does not have written travel expense policies, and reimbursements made to the three employees were not always supported by adequate documentation of actual expenses incurred. Most employee expense requests did not contain sufficient information such as the date of trip, trip origin, destination, and purpose. In one instance, the former maintenance employee was reimbursed \$300 and did not provide

any supporting documentation for this reimbursement. Also, the employees are reimbursed for mileage at rates ranging from \$.25 per mile to \$.50 per mile.

Without written, documented policies, the types of expenses that can be incurred, the extent of those expenses which will be paid by the district and the appropriate payment mechanism for the expenses may not be known. In addition, adequate documentation of employees' expenses is necessary to help ensure the propriety of payments made for travel expenses.

- B. The district's current and former maintenance employees were allowed to perform additional duties beyond the regular scope of work, including installing security bars at the district office, and major water line repair projects. The additional payments, totaling about \$550 in 1998, were not always supported by time sheets or other documentation of additional hours worked. In addition, the additional compensation was not reported on Forms W-2 and payroll taxes were not withheld from the payments.

Additionally, the district does not issue Forms 1099-MISC to individuals or unincorporated businesses which provide services to the district. During the year ended December 31, 1998, the district paid a non-incorporated business \$11,200 for repairing and painting the water tower and an individual \$1,190 for excavating work.

The Internal Revenue Code (IRC) generally indicates individuals treated as employees should have all compensation reported on Forms W-2. The IRC further requires payments totaling \$600 or more in a year to non-employees and businesses which are not corporations be reported on Forms 1099-MISC. In addition, time sheets or other documentation of time worked should be retained for all payments to employees.

- C. The district did not withhold federal or state income taxes from approximately \$15,000 of employees' wages in 1998. The Internal Revenue Code requires employers to withhold federal income taxes and Section 143.191, RSMo 1994, requires employers to withhold state income taxes from wages.

WE RECOMMEND the Board of Directors:

- A. Adopt written travel expense policies and require detailed travel expense reports prior to payment. These reports should include information such as trip date, origin, destination, and purpose, and should contain sufficiently detailed receipts to ensure the district reimburses only valid employee expenses.
- B. Report all compensation paid to employees on Forms W-2 and non-employees on Forms 1099-MISC and amend previous years' Forms W-2 to reflect compensation amounts not originally included on the forms. In addition, the board should require time sheets or other documentation for all payments to employees.
- C. Ensure federal and state income taxes are properly withheld and remitted for any wages or salaries paid.

AUDITEE'S RESPONSE

A&B. We agree and will implement.

C. We will look into this.

This report is intended for the information of the district's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

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